

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Pigeon	County Huron
Audit Date 2/28/05	Opinion Date 10/31/06	Date Accountant Report Submitted to State: 11/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name)

Nietzke & Faupel, P.C.

Street Address

P.O. Box 499 7274 Hartley Street

City

Pigeon

State

MI

ZIP

48755

Accountant Signature

Brian Hazell, CPA

Date

11/28/06

**VILLAGE OF PIGEON
PIGEON, MICHIGAN
HURON COUNTY**

**FINANCIAL REPORT
FEBRUARY 28, 2005**

VILLAGE OF PIGEON, MICHIGAN

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VILLAGE OF PIGEON, MICHIGAN

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REPORT OF INDEPENDENT AUDITORS

To The Honorable Village Council
Village of Pigeon
Pigeon, Michigan 48755

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pigeon, Michigan, as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Pigeon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pigeon, Michigan, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2006, on our consideration of the Village of Pigeon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through viii and 26 through 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

Report of Independent Auditors (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Pigeon, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Village of Pigeon, Michigan. The combining and individual nonmajor fund financial statements, supplemental schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

October 31, 2006

As the management of the Village of Pigeon, Michigan, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2005. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the Village exceed its liabilities at the close of the most recent fiscal year by \$6,564,205 (net assets). Of this amount, \$412,974 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$(41,545).
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$344,662. Over 38.5 percent of this total amount or \$132,727 is available for spending at the government's discretion (unrestricted fund balances).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$132,727 or 21.6 percent of the total general fund expenditures.
- The Village's total debt increased by \$620,678 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village of Pigeon's basic financial statements. The Village is reporting these financial statements utilizing a new reporting structure that all state and local governments must implement. These requirements restructured much of the information that governmental units have presented in the past. For this reason, this discussion is not presented with a comparison to the prior year. In future years, a comparative analysis of government-wide data will be presented.

The Village's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government (including administration), public safety, public works and recreation and culture operations. The business-type activities of the Village include the water and sewer operations.

The government-wide financial statements can be found on pages 2 and 3 of the financial report.

Fund financial statements. A *fund* is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds, and propriety funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare this information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village maintains six individual governmental funds. Information is presented separately, in the governmental fund balance sheet, and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, and Local Street Funds, each of which are considered to be major funds. Data from the other three governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided in the financial report to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4 through 7 of the financial report.

Proprietary Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sanitary sewer and water operations.

The basic proprietary fund financial statements can be found on pages 8 through 11 of the financial report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 24 of the financial report.

Other information. In addition to the basic financial statements and accompanying notes, the financial report also presents certain required supplementary information concerning the Village's budgetary information for the three major governmental funds. This required supplementary information can be found on pages 26 through 32 of the financial report.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information. Combining, individual fund statements and schedules can be found on pages 43 through 44 of the financial report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$6,564,205 at the close of the fiscal year.

A significant portion of the Village's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The table below shows the Village's net assets as of February 28, 2005.

Village's Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 381,278	\$ 280,397	\$ 661,675
Capital assets	<u>2,873,590</u>	<u>5,702,050</u>	<u>8,575,640</u>
Total Assets	<u>3,254,868</u>	<u>5,982,447</u>	<u>9,237,315</u>
Long-term liabilities outstanding	66,355	2,519,000	2,585,355
Other liabilities	<u>56,015</u>	<u>31,739</u>	<u>87,754</u>
Total Liabilities	<u>122,370</u>	<u>2,550,739</u>	<u>2,673,109</u>
Net Assets:			
Invested in capital assets, net of related debt	2,800,329	3,183,050	5,983,379
Restricted		167,852	167,852
Unrestricted	<u>332,169</u>	<u>80,805</u>	<u>412,974</u>
Total net assets	<u>\$3,132,498</u>	<u>\$3,431,707</u>	<u>\$6,564,205</u>

Of the remaining balance of net assets, approximately 2.5% or \$167,852 are restricted resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$412,974 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Village's net assets decreased \$41,545 during the fiscal year.

The table below shows the change in net assets for fiscal year ending February 28, 2005.

Village's Change in Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General revenue:			
Property taxes	\$ 423,633	\$ 44,735	\$ 468,368
State Shared Revenues	233,506		233,506
Unrestricted investment earnings	2,047	1,626	3,673
Miscellaneous	13,498		13,498
Transfers – Net	(25,000)	25,000	
Program revenue:			
Charges for services	<u>46,950</u>	<u>416,394</u>	<u>463,344</u>
Total revenue	<u>694,634</u>	<u>487,755</u>	<u>1,182,389</u>
Expenses:			
General government	214,808		214,808
Public safety	112,179		112,179
Highways and public improvements	269,659		269,659
Sanitation	44,475		44,475
Parks and recreation	22,770		22,770
Interest on long term debt	3,868		3,868
Unallocated depreciation	39,846		39,846
Water		409,013	409,013
Sewer		<u>107,316</u>	<u>107,316</u>
Total expenses	<u>707,605</u>	<u>516,329</u>	<u>1,223,934</u>
Change in net assets	(12,971)	(28,574)	(41,545)
Net assets – beginning of year	3,145,469	3,460,281	6,605,750
Net assets – end of year	<u>\$3,132,498</u>	<u>\$3,431,707</u>	<u>\$6,564,205</u>

Governmental activities

Governmental activities decreased the Village's net assets by \$(12,971) or .2% of beginning net assets.

Business-Type activities

Business-type activities decreased the Village's net assets by \$(28,574) or .4% of beginning net assets.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus on the Village's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year, the unrestricted fund balance of the General Fund was \$132,727. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures; unrestricted fund balance represents 21.6% of total General Fund expenditures.

The fund balance of the Village's General Fund decreased by \$(13,877) during the current fiscal year. This is primarily attributable to the General Fund subsidizing the Water and Parks and Recreation Funds.

The primary funds utilized by the Village for street construction and maintenance are the Major and Local Streets Funds. At the conclusion of the fiscal year, the Major Street Fund had a fund balance of \$130,232 (an increase of \$29,101); the Local Street Fund had a balance of \$47,440 (a decrease of \$28,172).

Proprietary funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds at the end of the year amounted to \$80,805. The Water and Sewer Funds had a decrease in net assets for the year of \$(28,574). Other factors concerning the finances of these two funds have already been addressed in discussion of the Village's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were primarily related to revised capital improvement programs.

Budget to actual comparisons for the Village's general fund were mostly favorable.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2005, amounted to \$5,983,379. This investment in capital assets includes land, buildings and improvements, systems, equipment and infrastructure.

Major capital asset expenditures during the fiscal year included the following: Sanitary Sewer Improvements and upgrades and street construction.

The table below shows the Village's Capital assets as of February 28, 2005.

Village's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 500,000	\$ 201,000	\$ 701,000
Land improvements		272,853	272,853
Buildings and improvements	1,111,901	693,533	1,805,434
Equipment	940,721	232,152	1,172,873
Infrastructure	4,606,470	5,207,550	9,814,020
Construction in Progress		892,604	892,604
Total capital assets	7,159,092	7,499,692	14,658,784
Less: Accumulated depreciation	(4,285,502)	(1,797,642)	(6,083,144)
Capital assets – Net	<u>\$2,873,590</u>	<u>\$5,702,050</u>	<u>\$ 8,575,640</u>

Additional information on the Village's capital assets can be found in Note 1 on pages 16 through of the financial report.

Long-term debt. At the end of the current fiscal year, the Village had total debt outstanding of \$2,603,615. These amounts are summarized below.

Village's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Sewer revenue bonds		\$1,020,000	\$1,020,000
Water revenue bonds		1,499,000	1,499,000
General obligation bonds	\$55,000		55,000
Land contract	10,000		10,000
Accrued compensated absences	11,354		11,354
Lease obligation – Police Car	<u>8,261</u>		<u>8,261</u>
Total long-term debt	<u>\$84,615</u>	<u>\$2,519,000</u>	<u>\$2,603,615</u>

The Village's total debt increased during the current fiscal year with the addition of \$1,020,000 for Sanitary sewer revenue bonds.

Additional information on the Village's long-term debt can be found in Note 9 on pages 22 through 24 of the financial report.

Economic Factors and Next Year's Budgets and Rates

- Inflationary trends in the region compare favorably to national indices.
- The County's unemployment rate is 7.6 percent, which is comparable to the statewide rate.
- The Village will make Storm Sewer Improvements of approximately \$2,000,000.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: **Janet Heckman, Village Clerk, 29 S. Main Street, Pigeon, MI 48755.**

BASIC FINANCIAL STATEMENTS

VILLAGE OF PIGEON, MICHIGAN

STATEMENT OF NET ASSETS FEBRUARY 28, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS - TYPE ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash	\$ 224,308	\$ 228,909	\$ 453,217
Accounts receivable	30,009	109,506	139,515
Due from other governments	17,333		17,333
Internal balances	109,628	(109,628)	-
Inventory		1,963	1,963
Restricted assets:			
Cash		43,647	43,647
Capital assets:			
Land	500,000	201,000	701,000
Buildings	1,111,901	693,533	1,805,434
Equipment	940,721	232,152	1,172,873
Improvements		272,853	272,853
Infrastructure	4,606,470	5,207,550	9,814,020
Construction in progress		892,604	892,604
Less accumulated depreciation	(4,285,502)	(1,797,642)	(6,083,144)
Other assets:			
Bond issue costs		6,000	6,000
TOTAL ASSETS	<u>3,254,868</u>	<u>5,982,447</u>	<u>9,237,315</u>
<u>LIABILITIES</u>			
Accounts payable	16,656		16,656
Accrued wages payable	19,961		19,961
Accrued interest	1,137	31,739	32,876
Accrued compensated absences	11,355		11,355
Land contract payable	10,000		10,000
Notes payable	8,261		8,261
Revenue bonds payable		2,519,000	2,519,000
General obligation bonds payable	55,000		55,000
TOTAL LIABILITIES	<u>122,370</u>	<u>2,550,739</u>	<u>2,673,109</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	2,800,329	3,183,050	5,983,379
Restricted for:			
Capital projects		167,852	167,852
Unrestricted	332,169	80,805	412,974
TOTAL NET ASSETS	<u>\$ 3,132,498</u>	<u>\$ 3,431,707</u>	<u>\$ 6,564,205</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF PIGEON, MICHIGAN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2005

PROGRAM ACTIVITIES	PROGRAM REVENUES			NET (EXPENSES) REVENUES & CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
<u>Governmental Activities</u>						
General government	\$ 214,808				\$ (214,808)	\$ (214,808)
Public safety	112,179	1,071			(112,179)	(112,179)
Highways and public improvements	269,659	45,879			(268,588)	(268,588)
Sanitation	44,475				1,404	1,404
Parks and recreation	22,770				(22,770)	(22,770)
Interest on long-term debt	3,868				(3,868)	(3,868)
Unallocated depreciation	39,846				(39,846)	(39,846)
Total governmental activities	707,605	46,950	-	-	(660,655)	(660,655)
<u>Business-Type Activities</u>						
Water	409,013	253,676				\$ (155,337)
Sewer	107,316	162,718				55,402
Total business-type activities	516,329	416,394	-	-	-	(99,935)
Total Government	\$ 1,223,934	\$ 463,344	\$ -	\$ -	(660,655)	(760,590)
General Revenue:						
Property taxes					423,633	44,735
State shared revenues					233,506	1,626
Unrestricted investment earnings					2,047	25,000
Miscellaneous					13,498	
Transfers - net					(25,000)	
Total general revenues and transfers					647,684	71,361
Change in net assets					(12,971)	(28,574)
Net assets - beginning of the year					3,145,469	3,460,281
Net assets - end of the year					\$ 3,132,498	\$ 3,431,707
						\$ 6,564,205

VILLAGE OF PIGEON, MICHIGAN

**BALANCE SHEET - GOVERNMENTAL FUNDS
FEBRUARY 28, 2005**

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
Cash	\$ 210,040			\$ 14,268	\$ 224,308
Accounts receivable	30,009				30,009
Due from other funds	209,170	\$155,662	\$ 54,673	52,463	471,968
Due from other governments	1,515	12,070	3,748		17,333
TOTAL ASSETS	<u>\$ 450,734</u>	<u>\$ 167,732</u>	<u>\$ 58,421</u>	<u>\$ 66,731</u>	<u>\$ 743,619</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES:</u>					
Accounts payable	\$ 16,656				\$ 16,656
Accrued wages payable	19,960				19,961
Due to other funds	281,391	\$ 37,500	\$ 10,981	\$ 32,468	362,340
TOTAL LIABILITIES	<u>318,007</u>	<u>37,500</u>	<u>10,981</u>	<u>32,468</u>	<u>398,957</u>
<u>FUND BALANCES:</u>					
Unreserved, reported in:					
General Fund	132,726				132,726
Special Revenue Funds		130,232	47,440	6,457	184,129
Debt Service Funds				27,806	27,806
TOTAL FUND BALANCES	<u>132,726</u>	<u>130,232</u>	<u>47,440</u>	<u>34,263</u>	<u>344,661</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 450,734</u>	<u>\$ 167,732</u>	<u>\$ 58,421</u>	<u>\$ 66,731</u>	<u>\$ 743,619</u>

VILLAGE OF PIGEON, MICHIGAN

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENTAL ACTIVITIES NET ASSETS
FEBRUARY 28, 2005**

Total governmental fund balances	\$ 344,661
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. The cost of the assets is \$7,159,092 less the accumulated depreciation of \$4,285,502.	2,873,590
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.	(85,754)
Net assets - governmental activities	<u>\$ 3,132,498</u>

VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Taxes	\$ 366,014		\$ 57,618		\$ 423,632
Licenses and permits	550				550
Intergovernmental	128,012	\$ 70,214	21,782	\$ 13,498	233,506
Charges for services	109,605				109,605
Fines and other	6,313				6,313
Miscellaneous	23,619			230	23,849
TOTAL REVENUE	<u>634,113</u>	<u>70,214</u>	<u>79,400</u>	<u>13,728</u>	<u>797,455</u>
EXPENDITURES:					
Current:					
Legislative	20,310				20,310
General government	233,005				233,005
General services administration	48,011				48,011
Streets		26,113	102,572	15,279	143,964
Recreation				9,827	9,827
Police	105,376				105,376
Public works	150,953				150,953
Capital outlay	38,959				38,959
Debt service:					
Principal	16,178			15,000	31,179
Interest and fiscal charges	698			3,868	4,567
TOTAL EXPENDITURES	<u>613,490</u>	<u>26,113</u>	<u>102,572</u>	<u>43,974</u>	<u>786,149</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>20,622</u>	<u>44,101</u>	<u>(23,172)</u>	<u>(30,246)</u>	<u>11,306</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in				29,500	29,500
Operating transfers out	(34,500)	(15,000)	(5,000)		(54,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(34,500)</u>	<u>(15,000)</u>	<u>(5,000)</u>	<u>29,500</u>	<u>(25,000)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>(13,878)</u>	<u>29,101</u>	<u>(28,172)</u>	<u>(746)</u>	<u>(13,694)</u>
FUND BALANCE - BEGINNING	146,604	101,131	75,612	35,009	358,356
FUND BALANCE - ENDING	<u>\$ 132,726</u>	<u>\$ 130,232</u>	<u>\$ 47,440</u>	<u>\$ 34,263</u>	<u>\$ 344,661</u>

VILLAGE OF PIGEON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2005**

Net change in fund balances - governmental funds	\$ (13,694)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the *Statement of Activities*, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	33,212	
Street construction	73,798	
Depreciation expense	<u>(128,064)</u>	
		(21,054)

The net revenue of certain activities of equipment rental is reported with governmental activities.	(2,265)
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Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities.	31,178
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Accrued interest on long-term debt is an expenditure in the statement of activities, but not in the governmental funds.	(1,137)
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An elimination is made to remove intergovernmental administration fees.	(6,000)
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Change in net assets - governmental activities	<u>\$ (12,972)</u>
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VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
FEBRUARY 28, 2005**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	<u>SEWER</u>	<u>WATER</u>	<u>TOTALS</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 155,592	\$ 73,317	\$ 228,909
Due from other funds	66,092	4,334	70,426
Accounts receivable	74,227	35,279	109,506
Inventory	<u>1,963</u>	<u>1,963</u>	<u>1,963</u>
TOTAL CURRENT ASSETS	<u>295,911</u>	<u>114,893</u>	<u>410,804</u>
RESTRICTED ASSETS:			
Cash	<u>795</u>	<u>42,852</u>	<u>43,647</u>
TOTAL RESTRICTED ASSETS	<u>795</u>	<u>42,852</u>	<u>43,647</u>
NONCURRENT ASSETS:			
CAPITAL ASSETS:			
Land	201,000		201,000
Buildings		693,533	693,533
Equipment	116,123	116,029	232,152
Improvements	272,853		272,853
Infrastructure	1,006,149	4,201,401	5,207,550
Construction in progress	868,205	24,399	892,604
Less: accumulated depreciation	<u>(872,063)</u>	<u>(925,579)</u>	<u>(1,797,642)</u>
CAPITAL ASSETS - NET	<u>1,592,267</u>	<u>4,109,783</u>	<u>5,702,050</u>
OTHER ASSETS:			
Bond issue costs	<u>6,000</u>		<u>6,000</u>
TOTAL OTHER ASSETS	<u>6,000</u>		<u>6,000</u>
TOTAL NONCURRENT ASSETS	<u>1,598,267</u>	<u>4,109,783</u>	<u>5,708,050</u>
TOTAL ASSETS	<u>1,894,973</u>	<u>4,267,528</u>	<u>6,162,501</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Due to other funds	3,354	176,701	180,055
Accrued interest	14,875	16,864	31,739
Revenue bonds payable - Current	<u>12,000</u>	<u>19,000</u>	<u>31,000</u>
TOTAL CURRENT LIABILITIES	<u>30,229</u>	<u>212,565</u>	<u>242,794</u>
NONCURRENT LIABILITIES:			
Revenue bonds payable	<u>1,008,000</u>	<u>1,480,000</u>	<u>2,488,000</u>
TOTAL NONCURRENT LIABILITIES	<u>1,008,000</u>	<u>1,480,000</u>	<u>2,488,000</u>
TOTAL LIABILITIES	<u>1,038,229</u>	<u>1,692,565</u>	<u>2,730,794</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	572,267	2,610,783	3,183,050
Restricted for:			
Capital projects	125,000	42,852	167,852
Unrestricted	<u>159,477</u>	<u>(78,672)</u>	<u>80,805</u>
TOTAL NET ASSETS	<u>\$ 856,744</u>	<u>\$ 2,574,963</u>	<u>\$ 3,431,707</u>

VILLAGE OF PIGEON, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED FEBRUARY 28, 2005

	BUSINESS-TYPE ACTIVITIES		
	<u>ENTERPRISE FUNDS</u>		
	<u>SEWER</u>	<u>WATER</u>	<u>TOTALS</u>
OPERATING REVENUE:			
Charges for services	\$ 162,718	\$ 238,676	\$ 401,394
Hydrant rental		15,000	15,000
TOTAL OPERATING REVENUE	<u>162,718</u>	<u>253,676</u>	<u>416,394</u>
OPERATING EXPENSES:			
Salaries	19,225	13,527	32,752
Employee benefits	9,612	6,764	16,376
Operating supplies	390	4,085	4,475
Repairs and maintenance	12,519	8,966	21,485
Equipment rental	6,009	8,675	14,684
Utilities	4,055	11,371	15,426
Other		4,088	4,088
Maintenance contracts		1,074	1,074
Seminars	36	20	56
Alarm expense	689	689	1,378
Telephone		2,117	2,117
Water purchase from Caseville		141,663	141,663
Administrative fee		6,000	6,000
Lagoon expense	221		221
Permits/Estimates	400		400
Minutes - water board meetings		130	130
Hydra-stops		2,400	2,400
Other	747		747
Depreciation	29,346	107,158	136,504
Capital improvement expense		293	293
Rate adjustment to Caseville		21,897	21,897
TOTAL OPERATING EXPENSES	<u>83,249</u>	<u>340,917</u>	<u>424,166</u>
OPERATING INCOME (LOSS)	<u>79,469</u>	<u>(87,241)</u>	<u>(7,772)</u>
NONOPERATING REVENUE (EXPENSES):			
Current property taxes		44,735	44,735
Interest income	423	1,203	1,626
Interest and paying agent fees	(24,067)	(68,096)	(92,163)
TOTAL NONOPERATING (EXPENSES)	<u>(23,644)</u>	<u>(22,158)</u>	<u>(45,802)</u>

VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	BUSINESS-TYPE ACTIVITIES		
	<u>ENTERPRISE FUNDS</u>		
	<u>SEWER</u>	<u>WATER</u>	<u>TOTALS</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	<u>55,825</u>	<u>(109,399)</u>	<u>(53,574)</u>
OTHER FINANCING SOURCES:			
Operating transfer in		25,000	25,000
CHANGE IN NET ASSETS	<u>55,825</u>	<u>(84,399)</u>	<u>(28,574)</u>
NET ASSETS - BEGINNING OF YEAR	800,919	2,659,362	3,460,281
NET ASSETS - END OF YEAR	<u>\$ 856,744</u>	<u>\$ 2,574,963</u>	<u>\$ 3,431,707</u>

VILLAGE OF PIGEON, MICHIGAN

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	<u>ENTERPRISE FUNDS</u>		
	<u>SEWER</u>	<u>WATER</u>	<u>TOTALS</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 159,355	\$ 249,789	\$ 409,144
Receipts from interfund services		15,000	15,000
Payments to suppliers of goods and services	(110,299)	(162,273)	(272,571)
Payments to employees	(19,225)	(13,527)	(32,752)
Payments for fringe benefits	(9,612)	(6,764)	(16,376)
Payments for interfund services	(6,504)	(14,675)	(21,179)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,715</u>	<u>67,550</u>	<u>81,265</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating transfer in		<u>25,000</u>	<u>25,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of fixed assets	(13,313)	(19,609)	(32,922)
Increase in construction in progress	(840,993)	(5,367)	(846,360)
Bond principal payment	(29,000)	(19,000)	(48,000)
Payment of bond anticipation note	(350,000)		(350,000)
Interest and fees paid on bonds	(1,649)	(68,310)	(69,959)
Property tax levy received		44,735	44,735
Proceeds from bonds	1,020,000		1,020,000
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(214,955)</u>	<u>(67,551)</u>	<u>(282,506)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	423	1,203	1,626
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>(200,818)</u>	<u>26,202</u>	<u>(174,616)</u>
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	364,748	89,966	454,714
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 163,930</u>	<u>\$ 116,168</u>	<u>\$ 280,098</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 79,469	\$ (87,241)	\$ (7,772)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	29,346	107,158	136,504
(Increase) decrease in current assets:			
Accounts receivable	(3,363)	11,113	7,750
Due from other funds	(65,595)	(2,000)	(67,594)
Increase (decrease) in current liabilities:			
Accounts payable	(21,034)	-	(21,034)
Due to other funds	(5,108)	38,520	33,412
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 13,715</u>	<u>\$ 67,550</u>	<u>\$ 81,265</u>

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Village of Pigeon operates a council-mayor form of government under provisions of a revised charter, and provides the following services as authorized by its charter: public safety, (police and inspection), highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the Village are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all the Village's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Village has elected to implement the general provisions of the Statement in the current year.

Reporting Entity:

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, the Village of Pigeon has no component units.

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government Wide and Fund Financial Statements:

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Village's police and general administrative services are classified as governmental activities. The Village's water and sewer are classified as business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Village are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

(Continued)

VILLAGE OF PIGEON, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

State revenue sharing, charges for services, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the Village.

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The Village reports the following major governmental funds:

General Fund-The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund-The Major Street Fund accounts for resources legally restricted to expenditures for specified current operating purposes relating to the Major Streets of the Village.

Local Street Fund-The Local Street Fund accounts for resources legally restricted to expenditures for specified current operating purposes relating to the Local Streets of the Village.

The Village reports the following major proprietary funds:

The **Sewer Fund** accounts for the activities of the Village's wastewater treatment operations.

The **Water Fund** accounts for the activities of the Village's water distribution system.

Additionally, the Village reports the following nonmajor fund types:

Special Revenue Funds – Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes and for the enforcement of special services and activities. Accounting and financial reporting for General and Special Revenue Funds are identical. The Village accounts for the Trunkline and Recreation Funds in special revenue funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the utility enterprise funds are charges to customers of the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting:

The Village Council practices the following procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Village charter, prior to February 28, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Village charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to February 28, the budget is legally enacted through passage of a resolution.
4. The Village Clerk is required by the Village charter to present a monthly report to the Village Council explaining any variance from the approved budget.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse at the end of each fiscal year.
8. The Village Council may authorize supplemental appropriations during the year.

Cash and Cash Equivalents:

Cash and cash equivalents of the Village include cash on hand and all deposits with financial institutions, including all certificates of deposit.

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Other receivables at February 28, 2005 consist of property taxes, state road taxes, and billings for user charges services, including trash collections and utility services. Taxes, trash and utility charges are deemed collectible in full.

(Continued)

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences:

Village employees are allowed to accumulate a maximum of thirty days of sick leave. In the event of death, termination of employment, or retirement of an employee, one-half of sick leave accumulation is paid to the employee at his current rate of pay. Unused sick leave in excess of thirty days is paid annually at one-half of regular pay rate. There is no accumulation of unused vacation days allowed. The Village accrues a liability for compensated absences based on the estimate of accumulated sick leave that will be paid to its employees upon termination of employment in accordance with the requirements of GASB Statement 16. For governmental funds, the liability for compensated absences is recorded in the statement of net assets as a long-term liability since it is anticipated that none of the liability will be liquidated with expendable available financial resources.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied on the following July 1 and are payable without penalty through September 14. Village property tax revenue is recognized as revenue in the fiscal year levied to the extent that it is measurable and available in accordance with NCGA Interpretation 3 (Revenue Recognition - Property Taxes). The delinquent taxes of the Village are purchased through a revolving fund by Huron County and are therefore included as revenue in the fiscal year levied.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15 to 50
Buildings	25 to 50
Office equipment	5 to 15
Machinery and equipment	5 to 20
Vehicles	5 to 8
Improvements other than buildings	20

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental fund Statement of Net Assets. Depreciation expense for the year ended February 28, 2005, was \$128,064. Capital asset acquisitions in the governmental funds totaled \$107,010 and there were no asset disposals for the year ended February 28, 2005. A summary of Governmental Fund capital assets at February 28, 2005, follows:

Land	\$ 500,000
Buildings	1,111,901
Equipment	940,721
Infrastructure	<u>4,606,470</u>
Total capital assets	7,159,092
Less accumulated depreciation	<u>(4,285,502)</u>
NET GOVERNMENTAL FUND CAPITAL ASSETS	<u>\$2,873,590</u>

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund balance sheets. Depreciation expense for the year ended February 28, 2005, was \$136,504. Capital asset acquisitions in the business-type funds totaled \$32,924 and there were no asset disposals for the year ended February 28, 2005. A summary of Business-Type Fund capital assets at February 28, 2005, follows:

Land	\$ 201,000
Land improvements	272,853
Buildings	693,533
Equipment	232,152
Water infrastructure	4,201,401
Sewer infrastructure	<u>1,006,149</u>
Total capital assets	6,607,088
Less accumulated depreciation	<u>(1,797,642)</u>
Construction in progress	<u>892,604</u>
NET BUSINESS-TYPE FUND CAPITAL ASSETS	<u>\$5,702,050</u>

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

Depreciation expense was charged to functions/programs of the Village as follows:

Governmental activities:	
General government	\$ 39,846
Public safety	5,856
Public works	4,331
Highways and public improvement	34,621
Equipment rental assets	26,781
Recreation	<u>16,629</u>
Total depreciation expense – governmental activities	<u>\$128,064</u>
Business-type activities:	
Sewer	\$ 29,346
Water	<u>107,158</u>
Total depreciation expense – business-type activities	<u>\$136,504</u>

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – BUDGET COMPLIANCE:

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Village's expenditures and budgeted expenditures for the budgetary funds have been shown on a line item basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: **(CONTINUED)**

During the year ended February 28, 2005, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General:			
Superintendent	\$185,020	\$226,115	\$ (41,095)
Police department	104,120	105,376	(1,256)
Department of public works	123,965	124,741	(776)
Trunkline:			
Traffic services	950	959	(9)

NOTE 3 – CASH AND DEPOSITS:

The carrying amount of cash and deposits with financial institutions of the Village of Pigeon amounted to \$496,864 at February 28, 2005. The total bank balance as of the same date was \$469,953. Deposits with financial institutions are categorized as follows:

	<u>February 28, 2005</u>
Amount insured by the FDIC	\$286,944
Uncollateralized	<u>183,009</u>
Total deposits with financial institutions	<u>\$469,953</u>

The carrying amount of cash and deposits, which were restricted or designated for capital improvements as of February 28, 2005, amounted to \$43,647.

Michigan Compiled Laws Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Village's deposits are in accordance with statutory authority. The Village is limited to investments authorized by PA 20 of 1943, as amended and may invest in the following: checking accounts, savings accounts and certificates of deposits at financial institutions that are insured by the Federal Deposit Insurance Corporation. The Village's deposits and investments are within the authorization as set forth by the Village of Pigeon.

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 4 – PROPERTY TAXES:

Property taxes are levied based on the taxable value of property located in the Village. Assessed value is established annually and equalized by the State at an estimated 50% of current market value. A comparison of the assessed and taxable property values for the 2004 tax levy is as follows:

	<u>ASSESSED VALUE</u>	<u>TAXABLE VALUE</u>
Real property-Regular roll	\$28,613,100	\$24,301,413
Personal property-Regular roll	<u>4,104,800</u>	<u>4,104,800</u>
TOTAL	<u>\$32,717,900</u>	<u>\$28,406,213</u>

The Village is permitted, by charter, to levy up to \$19 (19 mills) per \$1,000 of taxable value for general governmental services including debt service. For the year ended February 28, 2005, the Village levied 12.27 mills for general governmental services, 1.00 mills for local street, and 1.50 mills for debt service. Total millage levied was 14.77.

NOTE 5 – INTERNAL BALANCES:

The balances of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Major Street	\$155,662	General Fund	\$155,662
Trunkline	4,963	General Fund	4,963
Local Street	54,673	General Fund	54,673
Water Fund	3,354	Sewer Fund	3,354
Water Debt	981	Local Street	981
General Fund	1,932	Recreation	1,932
General Fund	66,092	Sewer Fund	66,092
General Fund	176,701	Water Fund	176,701
Michigan Transportation	37,500	Major Street	37,500
Michigan Transportation	10,000	Local Street	10,000
General Fund	30,536	Michigan Transportation	30,536
Total	<u>\$ 542,394</u>	Total	<u>\$ 542,394</u>

NOTE 6 – CONSTRUCTION IN PROGRESS:

As of February 28, 2005, the Village has incurred \$868,205 of capital expenditures related to the sanitary sewage disposal system improvement project. The project includes upgrading the existing pump station, removing accumulated sludge from the existing lagoon cell, constructing a new 10-acre lagoon cell, and constructing related improvements. The total cost of the project is estimated to be approximately \$1,285,000.

Also included in construction in progress as of February 28, 2005 are amounts paid to the Village of Caseville that represent the Village's portion of the improvements to be made to the Village of Caseville's water intake system. As of February 28, 2005, \$24,399 has been paid to the Village of Caseville for the water intake system improvements.

(Continued)

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 7 – PENSION PLAN:

Plan Description: The Village of Pigeon participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy: The obligation to contribute to and maintain the system for these employees was established by state statutes and requires a contribution from the employees of 4% of their salary. The Village is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

Annual Pension Cost: For the year ended February 28, 2005, the Village's annual pension cost of \$16,886 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5 percent per year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three year trend information:

	<u>Fiscal year ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual pension cost	\$12,457	\$13,743	\$16,599
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-
Actuarial value of assets	639,714	631,211	646,998
Actuarial Accrued Liability (entry age)	741,227	780,333	813,734
Unfunded AAL	101,513	149,122	166,736
Funded ratio	86%	81%	80%
Covered payroll	154,400	209,689	177,095
UAAL as a percentage of covered payroll	66%	71%	94%

NOTE 8 – RISK MANAGEMENT:

General Liability: Village of Pigeon participates in the Michigan Township Participating Plan, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$18.9 million for real and personal property losses and \$5 million for liability losses. Village of Pigeon is required to pay annual premiums to the Michigan Township Participating Plan for the liability coverage. No supplemental premium assessment is required by the Michigan Township Participating Plan. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 8 – RISK MANAGEMENT: (CONTINUED)

Workers' Compensation: Village of Pigeon purchased commercial insurance coverage for losses related to workers' compensation claims.

Employee Health Care: Village of Pigeon purchased commercial insurance coverage for its employees and their dependents.

NOTE 9 – LONG-TERM DEBT:

Long-term debt currently outstanding is as follows:

	<u>FEBRUARY 29, 2004</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>FEBRUARY 28, 2005</u>	<u>DUE WITHIN ONE YEAR</u>
Governmental activities:					
General obligation bonds	\$ 70,000		\$ 15,000	\$ 55,000	\$15,000
Lease payable – police car	14,438		6,178	8,261	5,997
Land contract payable – Lakers	20,000		10,000	10,000	10,000
Accrued compensated absences	<u>10,935</u>	<u>\$ 419</u>	<u> </u>	<u>11,354</u>	<u> </u>
Total bonds payable-governmental activities	\$ <u>115,373</u>	\$ <u>419</u>	\$ <u>31,178</u>	\$ <u>84,615</u>	\$<u>30,997</u>
Business-type activities:					
Sewer revenue bonds	\$ 29,000		\$ 29,000		
Sanitary sewage revenue bonds-2004		\$1,020,000		\$1,020,000	\$12,000
Water supply revenue Bonds	<u>1,518,000</u>	<u> </u>	<u>19,000</u>	<u>1,499,000</u>	<u>19,000</u>
Total bonds payable – business-type activities	\$ <u>1,547,000</u>	\$ <u>1,020,000</u>	\$ <u>48,000</u>	\$ <u>2,519,000</u>	\$<u>31,000</u>

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 9 – LONG-TERM DEBT: (CONTINUED)

Annual debt service requirements to maturity for the above obligations (excluding compensated absences) are as follows:

February 28,	General obligation bonds	Lease payable	Land contract	Sanitary sewer revenue bond	Water supply revenue bond
2006	\$17,945	\$6,303	\$10,000	\$ 67,956	\$ 86,455
2007	21,860	2,292		68,409	87,600
2008	20,860			67,841	86,655
2009				68,250	86,710
2010				67,638	86,720
2011-2015				339,994	434,085
2016-2020				339,869	434,505
2021-2025				340,084	434,870
2026-2030				340,891	435,155
2031-2035				340,041	434,975
2036-2040				340,806	349,045
2041-2045				340,693	349,045
Total	<u>60,425</u>	<u>8,595</u>	<u>10,000</u>	<u>2,722,472</u>	<u>2,956,775</u>
Less interest	<u>5,425</u>	<u>334</u>		<u>1,437,472</u>	<u>1,457,775</u>
Outstanding principal	<u>\$55,000</u>	<u>\$8,261</u>	<u>\$10,000</u>	<u>\$1,285,000</u>	<u>\$1,499,000</u>

Details of the Village of Pigeon's long-term debt as of February 28, 2005, are as follows:

The Village of Pigeon Michigan Transportation Fund General Obligation Bonds were issued September 1, 1992. The bonds were issued to provide financing for the Streetscape project completed in 1994. The bonds bear interest payable each May 1 and November 1 until maturity. The bonds final maturity date is May 1, 2007. The interest rate on the bonds is 6.20%. \$55,000

The Village of Pigeon entered into a lease payable on a police car on June 30, 2003. The interest rate on the lease is 6%. The final lease payment is May 31, 2006. 8,261

The Village of Pigeon entered into a land contract for the purchase of real estate from the local school district in the amount of \$40,000. The land contract calls for annual payments of \$10,000 until the contract is paid in full. No interest is being charged on this land contract. 10,000

VILLAGE OF PIGEON, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS FEBRUARY 28, 2005

NOTE 9 – LONG-TERM DEBT: (CONTINUED)

The Village of Pigeon Sanitary Sewage Disposal System Revenue Bonds, Series 2004 in the amount of \$1,285,000, were issued May 27, 2004. The bond proceeds were used to upgrade the existing pump station, remove the accumulated sludge from the existing lagoon, construct a new 10-acre lagoon, and construct related improvements. The bonds shall bear interest payable November 1, 2004 and each May 1 and November 1 thereafter until maturity. The bonds final maturity date is May 1, 2044. The interest rate on the bonds is 4.375%. As of February 28, 2005, \$1,020,000 of the bond proceeds had been received. \$1,020,000

The Village of Pigeon Water Supply System Revenue Bonds, in the amount of \$1,600,000, were issued August 18, 1999. The bond proceeds, along with a grant of \$1,400,000 from the USDA Rural Development, were used to construct a water supply system from Caseville to Pigeon. The bonds shall bear interest payable December 1, 1999 and each June 1 and December 1 thereafter until maturity. The bonds final maturity date is June 1, 2024. The interest rate on the bonds is 4.5%. \$1,499,000

NOTE 10 – SUBSEQUENT EVENT:

The issuance of General Obligation Unlimited Tax Bonds, Series 2005 in the amount of \$2,000,000 was approved at an election held in the Village on November 2, 2004 and authorized by a resolution adopted by the Village Council on March 28, 2005. The bonds are to be issued for the purpose of acquiring and constructing storm sewer improvements in the Village and related road reconstruction. The full faith and credit of the Village have been pledged to the prompt payment of the principal and interest on the bonds, and the Village is authorized and required to levy ad valorem taxes, without limitation as to rate or amount, to the extent necessary for the payment of such principal and interest.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 351,500	\$ 365,730	\$ 365,944	\$ 214
Tax collection fees	300	75	70	(5)
Interest on taxes	50	-	-	-
Total for taxes	<u>351,850</u>	<u>365,805</u>	<u>366,014</u>	<u>209</u>
Licenses and permits	<u>1,025</u>	<u>600</u>	<u>550</u>	<u>(50)</u>
Intergovernmental:				
State revenue sharing	121,115	125,135	123,114	(2,021)
Metro Act receipts	4,250	4,900	4,898	(2)
Total Intergovernmental	<u>125,365</u>	<u>130,035</u>	<u>128,012</u>	<u>(2,022)</u>
Charges for services:				
Curb, gutter and DPW services	2,350	1,075	1,071	(4)
Equipment rental	72,000	64,735	62,655	(2,080)
Refuse collection	43,500	45,070	45,879	809
Total Charges for Services	<u>117,850</u>	<u>110,880</u>	<u>109,605</u>	<u>(1,275)</u>
Fines and other	<u>6,500</u>	<u>6,500</u>	<u>6,313</u>	<u>(187)</u>
Miscellaneous:				
Interest and other	5,000	785	2,003	1,218
Administration fees	280	15,425	15,390	(35)
Cable TV fees		4,125	4,125	0
Other	1,060	1,585	1,581	(4)
Parking tickets	450	500	520	20
Total Miscellaneous	<u>6,790</u>	<u>22,420</u>	<u>23,619</u>	<u>1,199</u>
TOTAL REVENUE	<u>609,380</u>	<u>636,240</u>	<u>634,113</u>	<u>(2,127)</u>
EXPENDITURES:				
Legislative:				
Elected Officials:				
Salaries	2,200	2,850	2,550	300
Committee attendance	15,340	18,000	17,760	240
Total Elected Officials	<u>17,540</u>	<u>20,850</u>	<u>20,310</u>	<u>540</u>

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
General Government:				
Clerk:				
Salaries	35,500	35,500	35,500	
Clerical wages	9,600	9,750	9,808	(58)
Benefits - Blue Cross	57,000	63,280	61,648	1,632
Benefits - MERS	13,000	17,175	16,886	289
Benefits - Insurance	2,010	2,250	2,244	6
Benefits - Allocated	(105,510)	(118,555)	(76,370)	(42,185)
Equipment maintenance	1,200	2,075	1,870	205
Office supplies and expense	3,500	3,885	3,862	23
Postage	1,300	1,000	946	54
Printing and publications	1,050	1,000	820	180
Professional	8,100	16,400	15,793	607
Trash pickup	42,000	44,750	44,475	275
Travel and seminars	250	500	451	49
Insurance	54,000	59,075	59,015	60
Other	2,000	3,500	6,264	(2,764)
Employee Benefits - Payroll tax	18,500	15,350	14,802	548
Employee Benefits - Vacation and holiday pay	15,000	20,600	20,996	(396)
Employee Benefits - Clerical	4,800	4,500	4,474	26
Library subsidy	2,000			
Internet services	500	400	360	40
Policies and procedures	5,000			
Copy machine lease expense		2,160	1,852	308
Web site expense		425	419	6
Total Clerk	<u>170,800</u>	<u>185,020</u>	<u>226,115</u>	<u>(41,095)</u>
Elections	2,200	3,830	3,801	29
Treasurer	(140)	3,100	3,089	11
Total General Government	<u>172,860</u>	<u>191,950</u>	<u>233,005</u>	<u>(41,055)</u>
General Services Administration:				
Buildings & Grounds:				
Janitor	750	750	564	186
Cleaning supplies	100	75	41	34
Utilities	13,000	13,100	12,578	522
Maintenance and repairs	5,220	7,090	7,192	(102)
County Building	5,000	8,500	8,573	(73)
Trees trim/down - Stump removal	1,500	3,500	3,470	30

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Buildings & Grounds: (Continued)				
Bandshell - Electricity	250	175	138	37
Bandshell	1,000	1,100	1,093	7
School property - Utilities	14,000	13,500	12,830	670
School property - Maintenance	3,000	1,500	1,532	(32)
Total Buildings & Grounds	<u>43,820</u>	<u>49,290</u>	<u>48,011</u>	<u>1,279</u>
Police Department:				
Salary - Chief	37,180	39,150	39,138	12
Salary - Other	18,000	18,000	17,937	63
Employee benefits	27,590	28,575	28,538	37
Uniform allowance	500	1,425	1,350	75
Offices supplies and expense	1,000	625	604	21
Telephone	1,500	2,450	2,629	(179)
Gas and oil	2,400	3,000	3,302	(302)
Maintenance and repairs	2,000	3,000	4,303	(1,303)
Travel and seminars	400	450	217	233
Other	2,000	1,475	1,893	(418)
302 funds - income and expense	(500)	975	1,162	(187)
Legal fees	2,000	3,900	3,498	402
Training funds	500	500	238	262
Video camera and system	600			
Police department internet	250	150	126	24
LEIN System	275			
Uniforms	500			
Tires		435	432	3
New police officer	150	10	9	1
Total Police Department	<u>96,345</u>	<u>104,120</u>	<u>105,376</u>	<u>(1,256)</u>
Public Works:				
Department of Public Works:				
Salaries	34,130	23,775	23,532	243
Employee benefits	17,065	11,890	11,766	124
Operating supplies	5,000	4,355	4,861	(506)
Uniform cleaning	1,775	1,750	1,774	(24)
Telephone	2,300	2,245	2,426	(181)
Electricity - Village lights	21,000	24,200	24,319	(119)
Electricity - Other	750	650	533	117
Equipment rental	20,000	12,620	12,036	584
Hydrant rental	15,000	15,000	15,000	

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Public Works: (Continued)				
Department of Public Works: (Continued)				
Other	1,675	1,810	1,780	30
Sidewalk replacement	5,500			
New street lights	5,500	5,150	5,572	(422)
Tree lights	1,750	1,275	1,018	257
Paper expense	400	200	1,078	(878)
Lawn maintenance contract	15,645	15,645	15,645	
Travel and seminars		1,000	1,001	(1)
OSHA consulting	2,400	2,400	2,400	
Total Department of Public Works	<u>149,890</u>	<u>123,965</u>	<u>124,741</u>	<u>(776)</u>
 Equipment:				
Payroll	3,200	3,725	3,620	105
Employee benefits	1,600	1,865	1,810	55
Gas and oil	4,750	6,000	6,089	(89)
Supplies	375	600	557	43
Maintenance and repairs	10,000	14,615	14,135	480
Total Equipment	<u>19,925</u>	<u>26,805</u>	<u>26,212</u>	<u>593</u>
 Total Public Works	<u>169,815</u>	<u>150,770</u>	<u>150,953</u>	<u>(183)</u>
 Capital Outlay:				
Equipment	25,190	25,190	25,188	2
Superintendent	5,500	2,025	2,021	4
Matching grant	10,000	6,500	6,500	
Other	10,000	2,500	2,500	
Police Department	2,500	2,750	2,750	
Total Capital Outlay	<u>53,190</u>	<u>38,965</u>	<u>38,959</u>	<u>6</u>
 Debt Service:				
Land contract - Laker West - School property	10,000	10,000	10,000	
Principal payments on capital lease	6,750	6,880	6,876	4
Total Debt Service	<u>16,750</u>	<u>16,880</u>	<u>16,876</u>	<u>4</u>
 TOTAL EXPENDITURES	<u>570,320</u>	<u>572,825</u>	<u>613,490</u>	<u>(40,665)</u>
 EXCESS OF REVENUE OVER EXPENDITURES	<u>39,060</u>	<u>63,415</u>	<u>20,622</u>	<u>(42,793)</u>

VILLAGE OF PIGEON, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out:				
Recreation	(5,500)	(9,500)	(9,500)	
Sewer Operating	(25,000)	-	-	
Water Fund		(25,000)	(25,000)	
TOTAL OTHER FINANCING (USES)	<u>(30,500)</u>	<u>(34,500)</u>	<u>(34,500)</u>	<u>-</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>8,560</u>	<u>28,915</u>	<u>(13,878)</u>	<u>(42,793)</u>
FUND BALANCE - BEGINNING OF YEAR	146,604	146,604	146,604	
FUND BALANCE - END OF YEAR	<u>\$ 155,164</u>	<u>\$ 175,519</u>	<u>\$ 132,726</u>	<u>\$ (42,793)</u>

VILLAGE OF PIGEON, MICHIGAN

**MAJOR STREET FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 65,000	\$ 70,300	\$ 70,214	\$ (86)
TOTAL REVENUE	<u>65,000</u>	<u>70,300</u>	<u>70,214</u>	<u>(86)</u>
EXPENDITURES:				
Road Construction:				
Labor	30			
Employee benefits	15			
Contracted services	25,000			
Total Road Construction	<u>25,045</u>			
Routine Maintenance:				
Labor	4,300	4,100	3,962	138
Employee benefits	2,150	2,050	1,981	69
Contracted services		500	492	8
Materials and supplies	1,800	150	25	125
Equipment rental	9,980	8,500	8,430	70
Sweeping and flushing	380	2,360	2,356	4
Total Routine Maintenance	<u>18,610</u>	<u>17,660</u>	<u>17,246</u>	<u>414</u>
Traffic services	<u>1,000</u>	<u>825</u>	<u>442</u>	<u>383</u>
Snow and ice control:				
Labor	2,100	1,675	1,137	538
Employee benefits	1,050	850	568	282
Supplies and services	1,375	325	1,540	(1,215)
Equipment rental	3,750	3,000	2,180	820
Total Snow and Ice control	<u>8,275</u>	<u>5,850</u>	<u>5,425</u>	<u>425</u>
Administration:				
Administrative fee	3,000	3,000	3,000	
TOTAL EXPENDITURES	<u>55,930</u>	<u>27,335</u>	<u>26,113</u>	<u>1,222</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>9,070</u>	<u>42,965</u>	<u>44,101</u>	<u>1,136</u>
OTHER FINANCING (USES):				
Operating transfers out	(15,000)	(15,000)	(15,000)	
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>(5,930)</u>	<u>27,965</u>	<u>29,101</u>	<u>1,136</u>
FUND BALANCE - BEGINNING OF YEAR	101,131	101,131	101,131	
FUND BALANCE - END OF YEAR	<u>\$ 95,201</u>	<u>\$ 129,096</u>	<u>\$ 130,232</u>	<u>\$ 1,136</u>

VILLAGE OF PIGEON, MICHIGAN

**LOCAL STREET FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 27,200	\$ 27,800	\$ 29,822	\$ 2,022
County road millage	20,935	29,825	27,796	(2,029)
Total taxes	48,135	57,625	57,618	(7)
Intergovernmental:				
Gas and weight tax	28,070	21,930	21,782	(148)
TOTAL REVENUE	<u>76,205</u>	<u>79,555</u>	<u>79,400</u>	<u>(155)</u>
EXPENDITURES:				
Construction:				
Labor	1,030	3,320	3,316	4
Employee benefits	515	1,660	1,608	52
Materials and supplies		54,820	12,842	41,978
Contracted services	25,000	12,850	54,811	(41,961)
Equipment rental		1,445	1,444	1
Total Construction	<u>26,545</u>	<u>74,095</u>	<u>74,021</u>	<u>74</u>
Routine maintenance:				
Labor	3,200	5,999	5,752	247
Employee benefits	1,600	3,000	2,876	124
Materials and supplies	2,500	1,350	1,054	296
Maintenance	365	2,205	2,204	1
Equipment rental	10,750	9,300	8,959	341
Total Routine Maintenance	<u>18,415</u>	<u>21,854</u>	<u>20,845</u>	<u>1,009</u>
Traffic services	1,015	670	514	156
Snow and ice control:				
Labor	2,375	1,800	1,243	557
Employee benefits	1,185	900	621	279
Supplies and services	650	425	1,540	(1,115)
Equipment rental	5,000	2,600	1,788	812
Total Snow and ice control	<u>9,210</u>	<u>5,725</u>	<u>5,192</u>	<u>533</u>
Administration				
Administrative fee	2,000	2,000	2,000	
TOTAL EXPENDITURES	<u>57,185</u>	<u>104,344</u>	<u>102,572</u>	<u>1,772</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>19,020</u>	<u>(24,789)</u>	<u>(23,172)</u>	<u>1,617</u>
OTHER FINANCING (USES):				
Operating transfers out	(5,000)	(5,000)	(5,000)	
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>14,020</u>	<u>(29,789)</u>	<u>(28,172)</u>	<u>1,617</u>
FUND BALANCE - BEGINNING OF YEAR	75,612	75,612	75,612	
FUND BALANCE - END OF YEAR	<u>\$ 89,632</u>	<u>\$ 45,823</u>	<u>\$ 47,440</u>	<u>\$ 1,617</u>

SUPPLEMENTAL INFORMATION

VILLAGE OF PIGEON, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FEBRUARY 28, 2005

	<u>TRUNKLINE</u>	<u>RECREATION</u>	<u>TRANSPORTATION BONDS DEBT RETIREMENT</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash		\$ 3,426	\$ 10,842	\$ 14,268
Due from other funds	\$ 4,963		47,500	52,463
Due from other governments				
TOTAL ASSETS	<u>\$ 4,963</u>	<u>\$ 3,426</u>	<u>\$ 58,342</u>	<u>\$ 66,731</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to other funds		\$ 1,932	\$ 30,536	\$ 32,468
TOTAL LIABILITIES		<u>1,932</u>	<u>30,536</u>	<u>32,468</u>
<u>FUND BALANCE:</u>				
Unreserved	\$ 4,963	1,494	27,806	34,263
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,963</u>	<u>\$ 3,426</u>	<u>\$ 58,342</u>	<u>\$ 66,731</u>

VILLAGE OF PIGEON, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>TRUNKLINE</u>	<u>RECREATION</u>	<u>TRANSPORTATION BONDS DEBT RETIREMENT</u>	<u>TOTAL</u>
REVENUE:				
Intergovernmental	\$ 13,498			\$ 13,498
Miscellaneous		\$ 188	\$ 42	230
TOTAL REVENUE	<u>13,498</u>	<u>188</u>	<u>42</u>	<u>13,728</u>
EXPENDITURES:				
Streets	15,279			15,279
Recreation		9,827		9,827
Debt retirement			18,868	18,868
TOTAL EXPENDITURES	<u>15,279</u>	<u>9,827</u>	<u>18,868</u>	<u>43,974</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(1,781)</u>	<u>(9,639)</u>	<u>(18,826)</u>	<u>(30,246)</u>
OTHER FINANCING SOURCES:				
Operating transfers in		9,500	20,000	29,500
TOTAL OTHER FINANCING SOURCES		<u>9,500</u>	<u>20,000</u>	<u>29,500</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>(1,781)</u>	<u>(139)</u>	<u>1,174</u>	<u>(746)</u>
FUND BALANCE - BEGINNING OF YEAR	6,744	1,633	26,632	35,009
FUND BALANCE - END OF YEAR	<u>\$ 4,963</u>	<u>\$ 1,494</u>	<u>\$ 27,806</u>	<u>\$ 34,263</u>

VILLAGE OF PIGEON, MICHIGAN

TRUNKLINE STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED FEBRUARY 28, 2005

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Trunkline maintenance	\$ 10,830	\$ 13,500	\$ 13,498	\$ (2)
TOTAL REVENUE	<u>10,830</u>	<u>13,500</u>	<u>13,498</u>	<u>(2)</u>
EXPENDITURES:				
Routine maintenance:				
Labor	850	875	764	111
Employee benefits	425	575	459	116
Materials and supplies	300			
Equipment rental	4,000	2,875	2,583	292
Sweeping and flushing	415	300	154	146
Total Routine Maintenance	<u>5,990</u>	<u>4,625</u>	<u>3,960</u>	<u>665</u>
Traffic services	<u>545</u>	<u>950</u>	<u>959</u>	<u>(9)</u>
Snow and ice control:				
Labor	2,000	2,800	2,415	385
Employee benefits	1,000	1,700	1,389	311
Materials and supplies	1,000	500	1,641	(1,141)
Equipment rental	3,250	5,200	4,553	647
Snow hauling-payroll	525	575	362	213
Total Snow and ice control	<u>7,775</u>	<u>10,775</u>	<u>10,360</u>	<u>415</u>
TOTAL EXPENDITURES	<u>14,310</u>	<u>16,350</u>	<u>15,279</u>	<u>1,071</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(3,480)</u>	<u>(2,850)</u>	<u>(1,781)</u>	<u>1,069</u>
FUND BALANCE - BEGINNING OF YEAR	6,744	6,744	6,744	
FUND BALANCE - END OF YEAR	<u>\$ 3,264</u>	<u>\$ 3,894</u>	<u>\$ 4,963</u>	<u>\$ 1,069</u>

VILLAGE OF PIGEON, MICHIGAN

**RECREATION FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Miscellaneous:				
Interest income	\$ 10	\$ 15	\$ 2	\$ (13)
Other	<u>215</u>	<u>180</u>	<u>186</u>	<u>6</u>
TOTAL REVENUE	<u>225</u>	<u>195</u>	<u>188</u>	<u>\$ (7)</u>
EXPENDITURES:				
Recreation:				
Labor	1,540	1,350	1,332	18
Employee benefits	750	675	666	9
Supplies	280	265	243	22
Utilities	1,250	1,115	1,144	(29)
Repairs and maintenance	255	1,480	1,530	(50)
Equipment rental	960	1,200	1,187	13
Other		50	48	2
Portable toilets		175	173	2
Irrigation System		3,700	3,504	196
TOTAL EXPENDITURES	<u>5,035</u>	<u>10,010</u>	<u>9,827</u>	<u>183</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(4,810)</u>	<u>(9,815)</u>	<u>(9,639)</u>	<u>176</u>
OTHER FINANCING SOURCES:				
Operating transfers in	5,500	9,500	9,500	
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>690</u>	<u>(315)</u>	<u>(139)</u>	<u>176</u>
FUND BALANCE - BEGINNING OF YEAR	<u>1,633</u>	<u>1,633</u>	<u>1,633</u>	
FUND BALANCE - END OF YEAR	<u>\$ 2,323</u>	<u>\$ 1,318</u>	<u>\$ 1,494</u>	<u>\$ 176</u>

VILLAGE OF PIGEON, MICHIGAN

**MICHIGAN DEPARTMENT OF TRANSPORTATION DEBT SERVICE FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Interest income	\$ 25	\$ 25	\$ 42	\$ 17
TOTAL REVENUE	<u>25</u>	<u>25</u>	<u>42</u>	<u>17</u>
EXPENDITURES:				
Bond principal payments	15,000	15,000	15,000	
Interest and paying agent fees	<u>3,870</u>	<u>3,870</u>	<u>3,868</u>	<u>2</u>
TOTAL EXPENDITURES	<u>18,870</u>	<u>18,870</u>	<u>18,868</u>	<u>2</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(18,845)</u>	<u>(18,845)</u>	<u>(18,826)</u>	<u>19</u>
OTHER FINANCING SOURCES:				
Operating transfers in	20,000	20,000	20,000	
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	<u>1,155</u>	<u>1,155</u>	<u>1,174</u>	<u>19</u>
FUND BALANCE - BEGINNING OF YEAR	26,632	26,632	26,632	
FUND BALANCE - END OF YEAR	<u>\$ 27,787</u>	<u>\$ 27,787</u>	<u>\$ 27,806</u>	<u>\$ 19</u>

VILLAGE OF PIGEON, MICHIGAN

**SEWER OPERATING FUND
SCHEDULE OF REVENUE, EXPENSES
AND CHANGE IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUE:			
Charges for services	\$ 165,485	\$ 162,718	\$ (2,767)
TOTAL OPERATING REVENUE	<u>165,485</u>	<u>162,718</u>	<u>(2,767)</u>
OPERATING EXPENSES:			
Salaries	19,275	19,225	50
Employee benefits	9,650	9,612	38
Operating supplies	475	390	85
Repairs and maintenance	12,950	12,519	431
Equipment rental	6,125	6,009	116
Utilities	4,500	4,055	445
Seminars		36	(36)
Alarm expense	640	689	(49)
Lagoon expense	(272)	221	(493)
Sanitary sewer - Scheurer Street	11,320		11,320
Pipe inspection	27,605		27,605
2004 Storm sewer expense	2,500		2,500
Permits/Estimates	400	400	
Other	3,565	747	2,818
Depreciation	<u>28,000</u>	<u>29,346</u>	<u>(1,346)</u>
TOTAL OPERATING EXPENSES	<u>126,733</u>	<u>83,249</u>	<u>43,484</u>
OPERATING INCOME	<u>38,752</u>	<u>79,469</u>	<u>40,717</u>
NONOPERATING REVENUE (EXPENSES):			
Interest revenue	425	423	(2)
Interest expense	<u>(1,650)</u>	<u>(24,067)</u>	<u>(22,417)</u>
TOTAL NONOPERATING (EXPENSES)	<u>(1,225)</u>	<u>(23,644)</u>	<u>(22,419)</u>
CHANGE IN NET ASSETS	<u>37,527</u>	<u>55,825</u>	<u>18,298</u>
NET ASSETS - BEGINNING OF YEAR	800,919	800,919	
NET ASSETS - END OF YEAR	<u>\$ 838,446</u>	<u>\$ 856,744</u>	<u>\$ 18,298</u>

VILLAGE OF PIGEON, MICHIGAN

**WATER OPERATING FUND
SCHEDULE OF REVENUE, EXPENSES
AND CHANGE IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUE:			
Charges for services	\$ 244,585	\$ 238,676	\$ (5,909)
Hydrant rental	15,000	15,000	
TOTAL OPERATING REVENUE	<u>259,585</u>	<u>253,676</u>	<u>(5,909)</u>
OPERATING EXPENSES:			
Salaries	13,400	13,527	(127)
Employee benefits	6,700	6,764	(64)
Operating supplies	5,000	4,085	915
Repairs and maintenance	18,450	8,966	9,484
Equipment rental	8,375	8,675	(300)
Utilities	13,200	11,371	1,829
Other	4,500	4,088	412
Maintenance contracts	1,075	1,074	1
Seminars	500	20	480
Alarm expense	650	689	(39)
Telephone	2,200	2,117	83
Water purchase from Caseville	141,675	141,663	12
Administrative fee	6,000	6,000	
Minutes - Water board meetings	170	130	40
New water meters	3,405		3,405
Hydra-stops	2,400	2,400	
Depreciation	1,950	107,158	(105,208)
Capital improvement expense	500	293	207
Scheurer Street	10,600		10,600
Intake Valve - Caseville	7,000		7,000
Rate adjust to Caseville	21,900	21,897	3
TOTAL OPERATING EXPENSES	<u>269,650</u>	<u>340,917</u>	<u>(71,267)</u>
OPERATING (LOSS)	<u>(10,065)</u>	<u>(87,241)</u>	<u>(77,176)</u>
NONOPERATING REVENUE (EXPENSES):			
Current property taxes	44,735	44,735	
Interest income	175	1,203	1,028
Interest and paying agent fees	(68,310)	(68,096)	
Bond principal payments	(19,000)	-	19,000
TOTAL NONOPERATING (EXPENSES)	<u>(42,400)</u>	<u>(22,158)</u>	<u>20,028</u>
(LOSS) BEFORE OTHER FINANCING SOURCES	<u>(52,465)</u>	<u>(109,399)</u>	<u>(57,148)</u>
OTHER FINANCING SOURCES:			
Operating transfer	25,000	25,000	
CHANGE IN NET ASSETS	<u>(27,465)</u>	<u>(84,399)</u>	<u>(57,148)</u>
NET ASSETS - BEGINNING OF YEAR	2,659,362	2,659,362	
NET ASSETS - END OF YEAR	<u>\$ 2,631,897</u>	<u>\$ 2,574,963</u>	<u>\$ (57,148)</u>

VILLAGE OF PIGEON, MICHIGAN

**SCHEDULE OF MICHIGAN TRANSPORTATION FUND GENERAL OBLIGATION BONDS
SERIES 1992-A
FEBRUARY 28, 2005**

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>PERIOD TOTAL</u>	<u>FISCAL TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>		
05/01/05	\$ 15,000	6.20%	\$ 1,705	\$ 16,705	
11/01/05			1,240	1,240	\$ 17,945
05/01/06	20,000	6.20%	1,240	21,240	
11/01/06			620	620	21,860
05/01/07	20,000	6.20%	620	20,620	20,620
	<u>\$ 55,000</u>		<u>\$ 5,425</u>	<u>\$ 60,425</u>	<u>\$ 60,425</u>

The Michigan Transportation Fund General Obligation Bonds dated September 1, 1992 were issued to provide financing for the Streetscape project completed in 1994.

VILLAGE OF PIGEON, MICHIGAN
SCHEDULE OF WATER SUPPLY REVENUE BONDS
SERIES 1999
FEBRUARY 28, 2005

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>PERIOD TOTAL</u>	<u>FISCAL TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>		
06/01/05			\$ 33,728	\$ 33,728	
12/01/05	\$ 19,000	4.50%	33,727	52,727	\$ 86,455
06/01/06			33,300	33,300	
12/01/06	21,000	4.50%	33,300	54,300	87,600
06/01/07			32,828	32,828	
12/01/07	21,000	4.50%	32,827	53,827	86,655
06/01/08			32,355	32,355	
12/01/08	22,000	4.50%	32,355	54,355	86,710
06/01/09			31,860	31,860	
12/01/09	23,000	4.50%	31,860	54,860	86,720
2010 - 2038	1,393,000	4.50%	1,129,635	2,522,635	
	<u>\$ 1,499,000</u>		<u>\$ 1,457,775</u>	<u>\$ 2,956,775</u>	<u>\$ 434,140</u>

The Village of Pigeon Water Supply System Revenue Bonds, in the amount of \$1,600,000, were issued August 18, 1999. The bond proceeds, along with a grant of \$1,400,000 from the USDA Rural Development, were used to construct a water supply system from Caseville, Michigan to Pigeon, Michigan.

VILLAGE OF PIGEON

SANITARY SEWAGE DISPOSAL SYSTEM REVENUE BONDS,

SERIES 2004

FEBRUARY 28, 2005

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
5/1/2005	\$ 12,000	4.375%	\$ 28,109	\$ 40,109
11/1/2005		4.375%	27,847	27,847
5/1/2006	13,000	4.375%	27,847	40,847
11/1/2006		4.375%	27,563	27,563
5/1/2007	13,000	4.375%	27,563	40,563
11/1/2007		4.375%	27,278	27,278
5/1/2008	14,000	4.375%	27,278	41,278
11/1/2008		4.375%	26,972	26,972
5/1/2009	14,000	4.375%	26,972	40,972
11/1/2009		4.375%	26,666	26,666
5/1/2010	15,000	4.375%	26,666	41,666
11/1/2010		4.375%	26,338	26,338
5/1/2011	16,000	4.375%	26,338	42,338
11/1/2011		4.375%	25,988	25,988
5/1/2012	16,000	4.375%	25,988	41,988
11/1/2012		4.375%	25,638	25,638
5/1/2013	17,000	4.375%	25,638	42,638
11/1/2013		4.375%	25,266	25,266
5/1/2014	18,000	4.375%	25,266	43,266
11/1/2014		4.375%	24,872	24,872
5/1/2015	19,000	4.375%	24,872	43,872
11/1/2015		4.375%	24,456	24,456
5/1/2016	20,000	4.375%	24,456	44,456
11/1/2016		4.375%	24,019	24,019
5/1/2017	20,000	4.375%	24,019	44,019
11/1/2017		4.375%	23,581	23,581
5/1/2018	21,000	4.375%	23,581	44,581
11/1/2018		4.375%	23,122	23,122
5/1/2019	22,000	4.375%	23,122	45,122
11/1/2019		4.375%	22,641	22,641
5/1/2020	23,000	4.375%	22,641	45,641
11/1/2020		4.375%	22,138	22,138
5/1/2021	24,000	4.375%	22,138	46,138
11/1/2021		4.375%	21,613	21,613
5/1/2022	25,000	4.375%	21,613	46,613
11/1/2022		4.375%	21,066	21,066
5/1/2023	27,000	4.375%	21,066	48,066
11/1/2023		4.375%	20,475	20,475
5/1/2024	28,000	4.375%	20,475	48,475
11/1/2024		4.375%	19,863	19,863
5/1/2025	29,000	4.375%	19,863	48,863
11/1/2025		4.375%	19,228	19,228
5/1/2026	30,000	4.375%	19,228	49,228

VILLAGE OF PIGEON

SANITARY SEWAGE DISPOSAL SYSTEM REVENUE BONDS,

SERIES 2004

FEBRUARY 28, 2005

<u>Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
11/1/2026		4.375%	18,572	18,572
5/1/2027	32,000	4.375%	18,572	50,572
11/1/2027		4.375%	17,872	17,872
5/1/2028	33,000	4.375%	17,872	50,872
11/1/2028		4.375%	17,150	17,150
5/1/2029	35,000	4.375%	17,150	52,150
11/1/2029		4.375%	16,384	16,384
5/1/2030	36,000	4.375%	16,384	52,384
11/1/2030		4.375%	15,597	15,597
5/1/2031	38,000	4.375%	15,597	53,597
11/1/2031		4.375%	14,766	14,766
5/1/2032	39,000	4.375%	14,766	53,766
11/1/2032		4.375%	13,913	13,913
5/1/2033	41,000	4.375%	13,913	54,913
11/1/2033		4.375%	13,016	13,016
5/1/2034	43,000	4.375%	13,016	56,016
11/1/2034		4.375%	12,075	12,075
5/1/2035	45,000	4.375%	12,075	57,075
11/1/2035		4.375%	11,091	11,091
5/1/2036	47,000	4.375%	11,091	58,091
11/1/2036		4.375%	10,063	10,063
5/1/2037	49,000	4.375%	10,063	59,063
11/1/2037		4.375%	8,991	8,991
5/1/2038	51,000	4.375%	8,991	59,991
11/1/2038		4.375%	7,875	7,875
5/1/2039	54,000	4.375%	7,875	61,875
11/1/2039		4.375%	6,694	6,694
5/1/2040	56,000	4.375%	6,694	62,694
11/1/2040		4.375%	5,469	5,469
5/1/2041	58,000	4.375%	5,469	63,469
11/1/2041		4.375%	4,200	4,200
5/1/2042	61,000	4.375%	4,200	65,200
11/1/2042		4.375%	2,866	2,866
5/1/2043	64,000	4.375%	2,866	66,866
11/1/2043		4.375%	1,466	1,466
5/1/2044	67,000	4.375%	1,466	68,466
Total	<u>\$ 1,285,000</u>		<u>\$ 1,437,472</u>	<u>\$ 2,722,472</u>

The Village of Pigeon Sanitary Sewer Disposal System Revenue Bonds, in the amount of \$1,285,000, were issued on May 27, 2004. The bond proceeds were used to upgrade the existing pump station, remove the accumulated sludge from the existing lagoon, construct a new 10 acre lagoon, and construct related improvements.

VILLAGE OF PIGEON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2005

Federal Grantor	Federal CFDA Number	Approved Grant Award Amount	Current Year Expenditures	Current Year Receipts
U.S. Department of Agriculture				
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,285,000	\$ 1,212,523	\$ 1,020,000

Balance of Federal Loans:

2004 USDA Sanitary Sewer System Loan	\$ 1,020,000
1999 USDA Water System Loan	1,499,000

Notes to the Scheduel of Expenditures of Federal Awards

The amounts reported in the schedule of expenditures of federal awards have been determined using the accrual basis of accounting.

Included in the federal expenditures is a payment in the amount of \$354,223 for the payment of the principal and interest on a bond anticipation note used to finance the start of the project before the loan proceeds were received from the USDA.

VILLAGE OF PIGEON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED FEBRUARY 28, 2005

There were no findings or questioned costs for the year ended February 28, 2004.



Nietzke & Faupel, PC

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CPA's On Your Team

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Village Council
Village of Pigeon
Pigeon, Michigan 48755

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pigeon, Michigan, as of and for the year ended February 28, 2005, which collectively comprise the Village of Pigeon, Michigan's basic financial statements and have issued our report thereon dated October 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Pigeon, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Pigeon, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Pigeon, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel, P.C.

Nietzke & Faupel, P.C.
Pigeon, Michigan

October 31, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Village Council
Village of Pigeon
Pigeon, Michigan 48755

Compliance

We have audited the compliance of the Village of Pigeon, Michigan, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2005. The Village of Pigeon, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Pigeon, Michigan's management. Our responsibility is to express an opinion on the Village of Pigeon, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Pigeon, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Pigeon, Michigan's compliance with those requirements.

In our opinion, the Village of Pigeon, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2005.

Internal Control Over Compliance

The management of the Village of Pigeon, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Pigeon, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 31, 2006

VILLAGE OF PIGEON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED FEBRUARY 28, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report, expresses an unqualified opinion on the financial statements of the Village of Pigeon.
2. One reportable condition relating to the audit of the financial statements is reported in the REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.
3. No instances of noncompliance material to the financial statements of the Village of Pigeon, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No reportable conditions were disclosed regarding internal control over major federal award program compliance in the REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.
5. The auditor's report on compliance for the major federal award programs for the Village of Pigeon, expresses an unqualified opinion on all major federal programs.
6. The auditor's report disclosed no instances of findings relative to the major federal award programs for the Village of Pigeon.
7. The programs tested as major programs included:
Water and Waste Disposal Systems for Rural Communities – CFDA #10.760
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Village of Pigeon did not qualify as a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITION

2005-1 Segregation of duties

Condition: The Village Clerk is processing bills and receipts in the system along with collecting cash receipts from the customers.

Criteria: This combination indicates a lack of segregation of duties.

Effect: Because of the lack of segregation of duties, it would be possible to manipulate records.

Recommendation: Review procedures should be established in this area and they should be performed by someone independent of the billing procedures and the collection of the cash.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs related to the major federal award programs audit for the year ended February 28, 2005.